

# OSA Newsletter

Spring 2004

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## Baby Boom Update

### **Growing Interest in Phased Retirement**

Watson Wyatt Worldwide recently released survey results showing that more and more workers would prefer a phased retirement. Phased retirement is where there is a gradual transition to retirement by a reduction in hours or work responsibilities. According to the survey, almost 2/3rds of those age 50 and older would rather scale back their work hours or have more flexible schedules before they leave the work force for good.

According to the survey labor market demographics portend a large outflow of retiring baby boomers. As a result, employers may find phased retirement to their advantage. Such policies could be used to encourage older workers to postpone retirement.

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More information at [www.watsonwyatt.com](http://www.watsonwyatt.com)

## Annual Survey

### **Savings Stagnant**

Unrealistic expectations may be the reason workers aren't saving more for retirement according to the Employee Benefit Research Institute's 14th annual national Retirement Confidence Survey.

#### ***Survey Highlights:***

- Workers think they can work long past the normal retirement age.

- Many workers have low expectations of how much income they'll need in retirement.
- Most workers don't expect their standard of living to change in retirement.
- Most workers don't know when they would be eligible for full Social Security benefits.
- 40% of workers are unwilling to cut spending in order to save.
- Almost 2/3rds of surveyed workers were not confident that Social Security would provide the same benefits when they retire as retirees receive today.

Education is key to encouraging saving. But some techniques work better than others. Survey results show that personalized, one-on-one, and print communication work best.

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More information at [www.ebri.org](http://www.ebri.org)

## Retirement in China

### **Rusty Rice Bowl?**

In the United States, the three-legged stool has been the analogy describing the three components of a sound retirement plan - private pensions, personal savings, and Social Security - three legs providing sound footing regardless of the surface upon which it is placed. In China the analogy has been the "iron rice bowl" - heavy, strong, and able to right itself if tipped. But as in all developed and now developing nations, that strength has been waning.

A recent report off the Reuters news service (5-3-2004) described China's welfare system, which includes its national retirement plan, as "... crumbled, replaced by a piecemeal system that has many shortcomings and could leave millions of people destitute in old age ..." The system, consisting of personal retirement accounts and a pay-as-you-go plan that provides a basic pension equal to 20% of final salary, has suffered from poor investment returns, high contribution rates, early retirement, and limited coverage of the rural population.

Those age 60 and older are projected to reach 28% of the total population in China by 2040. That is a greater share than is projected in the United States.

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Reuters News Service 5-3-04

## Corporate Pension Plans

### **The Big Chill**

A frozen pension plan can mean a number of things. Some companies freeze their plans when they don't allow additional accruals. Others freeze their plans when new employees are excluded. And others halt service-based accruals but not salary-based accruals. However it's defined, 21% of the 1,000 largest corporate pension plans were frozen as of the end of 2003. These were the findings of a survey conducted by Aon Consulting, Chicago.

Reasons for freezing pension plans are primarily "bottom-line" concerns. After enjoying large surpluses and contribution holidays during the last decade, many corporation's plans are in current need of large cash contributions. A recent legal decision also piqued corporation's interest in freezing their defined benefit plans: the decision in *Cooper v. IBM Personal Pension*

*Plan* and *IBM Corp.* found that cash balance plans were inherently discriminatory against older workers. This decision is under appeal.

The list of those who've frozen their plans includes K-Mart Corp., Sherwin-Williams Co., ARAMARK Corp., Borg-Warner Automotive Inc., FleetBoston Financial Corp., and Halliburton Co.

Several large multiemployer plan sponsors have also frozen their plans including: United Food & Commercial Workers, Joint Trust Funds, Southern California, and the International Brotherhood of Teamsters.

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A more complete article can be found in the April 5, 2004 edition of *Pensions and Investments*, or at [www.pionline.com](http://www.pionline.com).

## Pension Fund Strategies

### **Maine Investments**

What is better, a high return investment with no guarantee, or a low return investment with a guarantee? According to the State of Maine, a bird in the hand is better than two in the bush. Instead of shooting for the moon and risking big losses, Maine's pension funds are now opting for an investment strategy using long-term, inflation indexed Treasury bonds that match the scheduled benefit payout to retirees. This strategy is known as "matching."

While some investment advisors lost their jobs making such recommendations when stock values were skyrocketing, Rex W. Holsapple, Chief Investment officer of Maine's pensions systems, found sympathetic ears when he recently made such a proposal. As of late last year Maine had converted about one-third of its pension assets to bonds. The rest of the

pension assets are invested in equities as the system still has some unfunded liabilities that they hope to address with some higher returns.

The Pension Benefit Guarantee Corporation, the federal agency that guarantees private pensions, opted for a similar strategy. Hoping to avoid a taxpayer bailout, the PBGC began matching its investment portfolio earlier this year.

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More information at <http://www.nytimes.com/>